

North American Industry Classification System

Industrial Classification Systems

For over sixty years, the **Standard Industrial Classification (SIC)** system has served as the structure for the collection, aggregation, presentation, and analysis of the US economy. The SIC has provided a rich library of past, present, and future economic trends.

The SIC system was developed in the 1930's at a time when manufacturing dominated the US economic scene. Over the last 60 years there have been numerous revisions to the SIC system, reflecting the economy's changing industrial composition. However, despite these revisions, the system has received increasing criticism about its ability to handle rapid changes in the US economy. Recent developments in information services, new forms of health care provision, expansion of services, and high tech manufacturing are examples of industrial changes that cannot be studied under the current SIC system.

Introducing NAICS

Developed in cooperation with Canada and Mexico, the **North American Industry Classification System (NAICS)** represents one of the most profound changes for statistical programs focusing on emerging economic activities. NAICS, developed using a production oriented conceptual framework, groups establishments into industries based on the activity in which they are primarily engaged. Establishments using similar raw material inputs, similar capital equipment, and similar labor are classified in the same industry. In other words, **establishments that do similar things in similar ways are classified together.**

NAICS Coding Structure

NAICS uses a six digit hierarchical coding system to classify all economic activity into twenty industry sectors. Five sectors are mainly goods-producing sectors and fifteen are entirely services-producing sectors. This six digit hierarchical structure allows greater coding flexibility than the four digit structure of the SIC. NAICS allows for the identification of 1,170 industries compared to the 1,004 found in the SIC system.

NAICS Hierarchic Structure

Industry Sector	51	Information
Sub-Sector	513	Broadcasting Telecommunications
Industry Group	5133	Telecommunications
NAICS Industry	51332	Wireless Telecommunications Carriers (except Satellites)
US Industry	513321	Paging

Comparing NAICS & SIC

It will be possible to derive two-thirds of all four digit SIC codes from the new NAICS system "either because the industry definition has not changed or because the new industries are sub-divisions of old SIC's that can be recombined." However, for the remaining industries time-series breaks were unavoidable. Familiar terms like Manufacturing, Retailing, and Services that were formerly used in everyday conversation to describe our economy will lose some historical meaning.¹ The Services division, which represents nearly forty percent of our state's employment, will now be broken into eight industry sectors; restaurants, which represent one-third of Rhode Island's Retail Trade, will be in a new sector – Accommodations and Food Services, and the Manufacturing division will no longer include the Publishing industry. NAICS will also assign codes to auxiliary establishments reflecting the primary activity of the establishment as well as the company.

While the loss of fifty years of time-series data is troublesome, the Economic Policy Classification Committee concluded that it is "unproductive to collect and maintain time series data that have questionable value."

Assigning NAICS Codes

The Labor Market Information Unit of the Rhode Island Department of Labor and Training assigns NAICS codes to all registered businesses in the same manner the SIC code was assigned. Information on the primary activity of each establishment within a company will continue to be requested at the time of registration and periodically reviewed through the Annual Refiling Survey. This information is used to assign the proper NAICS code to all establishments in the state.

In 1998, LMI began surveying existing employers in order to assign the proper NAICS code. **The department will maintain both SIC and NAICS codes for all employers until the end of 2003.**

Sources: *North American Industry Classification System Manual*, 1997;
North American Industry Classification System Paper, by John Murphy, 1998

1. *North American Industry Classification System Manual*,
Page 23, Berman Press, Lanham, MD, 1998

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Agriculture, Forestry, Fishing and Hunting

This sector comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from farms, ranches, or their natural habitat. Establishments in this sector are described as farms, ranches, dairies, greenhouses, nurseries, orchards, or hatcheries. The sector distinguishes two basic activities: agricultural production and agricultural support activities.



Mining

This sector includes establishments that extract naturally occurring minerals such as coal, ores, crude petroleum, and natural gas. The term mining includes quarrying, well operations, and beneficiating, or other preparation customarily performed at the mine site or as part of the mining activity. The sector distinguishes two basic activities: mine operation and mining support activities.



Utilities

This sector comprises establishments engaged in the provision of electric power, natural gas, steam supply, water supply and sewage removal. The specific activities associated with the utility services provided vary by utility: electric power includes generation, transmission, and distribution; natural gas includes distribution; steam supply includes provision and / or distribution; water supply includes treatment and distribution; and sewage removal includes collection, treatment, and disposal of waste through sewer systems and sewage treatment facilities.



Construction

This sector comprises establishments primarily engaged in the construction of buildings and other structures, heavy construction, additions, alterations, reconstruction, installation, and maintenance and repairs. Also included are establishments engaged in the demolition or wrecking of buildings and other structures, the clearing of building sites and the sale of materials from demolished structures. Blasting, test drilling, landfilling, leveling, earthmoving, excavating, land drainage, and other land preparation is also included.



Manufacturing

This sector comprises establishments primarily engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. Establishments in this sector are often described as plants, factories, or mills. These establishments generally use power-driven machines and material-handling equipment. This sector may also include establishments that transform materials or substances into new products by hand or in the worker's home, and those engaged in selling products made on the premises to the general public. This includes bakeries, candy stores, and custom tailors. This sector produces both finished products, ready for use or consumption, and semi-finished products that serve as input for further manufacturing.

Manufacturing establishments often perform activities that are considered to be out of the manufacturing realm, such as research and development, administrative functions, or warehousing. When separate establishments within the manufacturing firm perform these activities, they are classified in both the manufacturing sector and the NAICS sector that includes such activities.

Publishing and the combined activity of Printing and Publishing, which includes Newspaper Publishing, is no longer considered Manufacturing, but is included in the new Information Sector.



Wholesale Trade

This sector includes establishments engaged in wholesaling merchandise, generally without transformation, and in rendering services incidental to the sale of merchandise. Merchandise is generally sold to other businesses from an office or warehouse. The locations are not designed to solicit walk-in traffic and generally have a limited display of merchandise. The two main types of wholesalers are those that sell on their own account and those that arrange sales and purchases for others for a commission or fee.

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Retail Trade

This sector is composed of establishments organized to sell merchandise in small quantities to the general public. The two main types of retailers are store and nonstore. Stores are located and designed to attract large volumes of customers through extensive merchandise displays and mass-media advertisement. Customers include businesses and institutional clients as well as the general public. Office supply stores, building materials dealers, plumbing and electrical supply stores, gasoline service stations, automotive dealers, and mobile home dealers are all classified as store retailers. Stores that provide after-sales services such as repair and installation are generally considered retail. Non-store retailers also serve the general public through “infomercials”, mail-order catalogs, door-to-door solicitation, in-home demonstration, portable carts, and vending machines. *Restaurants are no longer classified in Retail Trade.*



Transportation and Warehousing

This sector comprises industries that provide transportation of passengers and cargo, scenic and sightseeing transportation, transportation support activities, and warehousing and storage for goods. Transportation may be provided by air, rail, road, water, or pipeline.



Information

This sector includes establishments primarily engaged in producing and distributing information and cultural products; establishments primarily engaged in providing the means to transmit or distribute data or other communications; and establishments primarily engaged in processing data. *The sector includes newspapers, book and software publishers, motion picture and sound recording industries, telecommunications, data processing services, and libraries.*



Finance and Insurance

This sector comprises establishments primarily involved in financial transactions involving the creation, liquidation, or change in ownership of financial assets, or in facilitating financial transactions. The three principal types of activities are: raising funds by taking deposits or issuing securities - thereby incurring liabilities; pooling risks by underwriting insurance and annuities; providing specialized services facilitating and supporting financial intermediation, insurance, and employee benefit programs.



Real Estate and Rental and Leasing

This sector includes establishments primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets. Tangible assets include buildings and equipment (without operator); intangible assets include patents and trademarks. Also included are establishments involved in managing, selling, buying, and appraising real estate for others.



Professional, Scientific, and Technical Services

This sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. Activities include legal advice and representation; accounting, bookkeeping, and payroll services; architectural, engineering, and specialized design services; computer services, consulting services, research services, advertising services, photographic services, translation and interpretation services; veterinary services, and other professional, scientific, and technical services.



Management of Companies and Enterprises

This sector includes establishments that hold the securities of companies and enterprises for the purpose of owning a controlling interest or influencing management decisions; or establishments that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decisionmaking role of the company or enterprise. Establishments in this sector perform essential activities that are often undertaken in-house, by establishments in many sectors of the economy.

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Administrative and Support and Waste Management and Remediation Services

This sector comprises establishments that perform routine support activities for the day-to-day operations of other organizations that are often undertaken in-house by establishments in many sectors of the economy. The establishments in this sector specialize in one or more of these support activities and provide these services to clients in a variety of industries or households on a contract or fee basis. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.



Educational Services

This sector includes establishments that provide instruction and training in a wide variety of subjects by teachers who explain, tell, demonstrate, supervise, and direct learning. *Schools, colleges, universities, and training centers are included in Educational Services.*



Health Care and Social Assistance

This sector includes establishments that provide health care and social assistance for individuals. **The services provided by establishments in this sector are delivered by trained professionals.**



Arts, Entertainment, and Recreation

This sector consists of establishments that operate facilities or provide services to meet various cultural, entertainment, and recreational interests of their patrons. Included are establishments involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing; establishments that preserve and exhibit objects and sites of historical, cultural, or educational interest; and establishments that operate facilities or provide services that enable patrons to participate in recreational activities, amusements, hobbies, and leisure time activities. *Some establishments that provide cultural, entertainment, or recreational facilities in combination with other services, such as resort and casino hotels and restaurants with nightclubs, are classified in other sectors. Also excluded are movie theaters, libraries, sightseeing buses, dinner cruises, or helicopter rides.*



Accommodation and Food Services

This sector is composed of establishments providing customers with lodging or preparing meals, snacks, and beverages for immediate consumption.



Other Services (except Public Administration)

This sector comprises establishments engaged in providing services not provided for elsewhere in the NAICS classification system. Included are establishments engaged in equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, providing dry-cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, dating services, and domestic help.



Public Administration

This sector consists of federal, state, and local government agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions within a given area. These agencies set policy, create laws, adjudicate civil and criminal legal cases, and provide for public safety and national defense. Ownership is generally not a criterion for classification in NAICS, therefore when separate establishment records are available, **the administration of a government activity will be classified in Public Administration and the operation of the government activity will be classified in the sector that includes such operations.** When separate establishment details for government agencies are not available, those agencies will be classified in the Public Administration sector.

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